

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION**

IN RE:)
EXAMINATION OF THE FEASIBILITY OF)
IMPLEMENTING A DEBT FORGIVENESS)
PROGRAM)

Docket No. 3400

ADDENDUM SUPPLEMENT OF RHODE ISLAND STATE ENERGY OFFICE

The Rhode Island State Energy Office (“Energy Office”) hereby submits this addendum supplement in response to a request for information from the Docket 3400 Hearing Officer during a pre-hearing conference on June 26, 2003. The Hearing Officer in Docket 3400 asked that the State Energy Office provide an analysis of prospective benefit costs associated with a payment assistance program as outlined in the Plan submitted by working group parties in Docket 3400. Following are tables that illustrate estimated benefit costs associated with reducing the existing LIHEAP participant population energy total annual household energy burden to a 7% level (6% for electric heat/electric baseload customers).

Natural gas program cost estimates were calculated based on actual consumption and expenditures of nearly 9,300 records provided by New England Gas Company and the State Energy Office. Electric Program costs were calculated using nearly 9,800 customer records provided by Narragansett Electric Company. Please note that benefit cost estimates here do not include costs associated with program administration or arrearage write-down. Further,

estimates are based on 2001-2002 electricity and natural gas prices. Program benefit costs, as illustrated in the attached tables, were determined in the following manner:

1. A target gas heat, electric baseload and electric heat burden was established for all participants (see Table 1). In this illustration, the burden is set at 4.8% to reflect the pro rata share of an average combined gas heat/electric baseload bill that produces a total 7% household energy burden.
2. Target gas and electricity expenditures were determined by multiplying household income (supplied for each customer record by the State Energy Office) by the target burden percentage. (See Tables 2 and 3.)
3. The target expenditure is then subtracted from the 12-month expenditure total (supplied by utility companies). The difference between the target expenditure and the actual expenditure was then increased by the average discount (R-60 or natural gas LIHEAP match) received by LIHEAP customers. The difference between the target expenditure and the non-discounted expenditure represented the subsidy required for the customer to achieve the target energy burden level.
4. Subsidies for all electric and natural gas customers were summed, and an average discount per customer was calculated.

Analysis of income and consumption data from all existing natural gas heat LIHEAP participants indicated that the average discount rate using the methodology outlined above would be 51%, and the average subsidy required to achieve the target burden was \$716. The average subsidy figure reflects a minimum subsidy of \$200 and a maximum of \$2,000. (Table 2.)

The electric discounts were calculated in the same manner as the gas discounts. The average discount would be 39% for baseload customers, and 63% for electric heat customers. The floor and ceiling assumptions that apply to gas customers would apply to electric heat customers. Baseload customers, however, would be subject to a \$100 floor instead of the \$200 that applies to heating customers. (Table 3.)

Net payment assistance program cost estimates for New England Gas Company are provided in Table 4. Table 4 reflects subsidy costs from Table 2, and assumed program administration costs of 10% in program year one, and 5% in subsequent years. In addition, estimates of avoided bad debt writeoffs, collection and disconnection costs, proceeds from LIHEAP allocations and the New England Gas Company LIHEAP match are reflected in Table 4. Table 4 does not provide arrearage write-down costs.

TARGET ENERGY BURDENS

Total Target Burden	7.0%
Target Gas Heat Burden	4.8%
Elec Non-Heat BurdenBurden	2.2%
Elec Heat + Non-Heat	6.0%

	Average Gas Heat Expenditure	Total Elec+Gas	Proportion Gas	Proportion Elec
Avg. Elec Non-Heat Expend. \$559	\$1,223	\$1,782	69%	31%

Table 1

NATURAL GAS DISCOUNT SUMMARY						
NATURAL GAS HEAT						
Target Burden: 4.8%				Subsidy cost based on 12,200 customers = \$8,735,200		
HH income	Annual Expenditure (Discounted)	Non-Disc. Annual Expenditure	Expend @ Target Burden	Subsidy Required to Achieve Target ¹	Discount Required	
\$13,591	\$1,223	\$1,329	\$653	\$716	51%	Mean Average
					9296	# of Records
						\$8,735,200
¹ Subsidy required to achieve target expenditure level reflects minimum subsidy of \$200 and maximum subsidy of \$2,000.						

Table 2

ELECTRIC DISCOUNT SUMMARIES

ELECTRIC BASELOAD

Target Baseload Burden: 3% Subsidy cost based on
20,140 customers = \$4,880,360

HH income	Annual Expenditure (Discounted)	Non-Disc. Annual Expenditure	Expend @ Target Burden	Subsidy Required to Achieve Target ¹	Discount Required	
\$14,242	\$474	\$614	\$427	\$242	39%	Mean Average

9296	# of Records
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ELECTRIC HEAT

Target Electric Heat Burden: 6% Subsidy cost based on
840 customers = \$675,218

HH income	Annual Expenditure (Discounted)	Non-Disc. Annual Expenditure	Expend @ Target Burden	Subsidy Required to Achieve Target ¹	Discount Required	
\$13,295	\$1,096	\$1,205	\$399	\$804	63%	Mean Average

483	# of Records
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\$5,555,578

¹ Subsidy required to achieve target expenditure level reflects minimum subsidy of \$100 for baseload, \$200 for heat customers, and maximum subsidy of \$2,000 for all cusotmers.

Table 3

New England Gas Summary Costs

Program Costs*

Discounted Natural Gas Heat Subsidy Cost	\$8,735,200
Program Administration @ 10% Year One	\$873,520
Program Administration @ 5% Subsequent Years	\$436,760

Subtotal Year One	\$9,608,720
Subtotal Subsequent Years	\$9,171,960

Offsets to Program Costs

Avoided Bad Debt Writeoffs, Collection and Disconnection Costs **	(\$628,184)
LIHEAP Allocation ***	(\$4,758,000)
NE Gas LIHEAP Match	(\$1,463,511)
Subtotal	(\$6,849,695)

Net Cost Year One **\$2,759,025**

Net Cost Subsequent Years **\$2,322,265**

* Costs reflected in this table do not include those associated with arrearage write-down.

** 10% of total 2001 bad debt write-offs

*** Assumes \$11.5 million total LIHEAP allocation for Rhode Island.

Table 4